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PROJECT NO. 52373

REVIEW OF WHOLESALE MARKET DESIGN	**§**	**PUBLIC UTILITY COMMISSION OF TEXAS**

TEXAS PUBLIC POLICY FOUNDATION'S COMMENTS

TO THE HONORABLE PUBLIC UTILITY COMMISSION OF TEXAS:

The Texas Public Policy Foundation (TPPF), through its Life:Powered initiative, respectfully submits the following comments in response to the questions submitted by PUC staff on October 25.

Questions Regarding Market Design

1. *The ORDC is currently a "blended curve" based on prior Commission action. Should the ORDC be separated into separate seasonal curves again? How would this change affect operational and financial outcomes?* TPPF does not have any comments on changes to the ORDC at this time.

2. *What modifications could be made to existing ancillary services to better reflect seasonal variability?*

TPPF is encouraged by the discussion around modifying the existing ancillary services for voltage support, ramping, etc. and continues to assert that some of those costs need to be borne by variable generators to the extent that they increase the need for those services. The current model of charging all ancillary services costs directly to ratepayers must change in an environment where wind and solar output will soon be contributing more than load to daily and seasonal system variability. Failing to do so constitutes a growing subsidy to variable generators at the expense of ratepayers. In addition to modifying existing ancillary services, TPPF also strongly recommends the adoption of a firming ancillary service for wind and solar, as described in greater detail in our comments on September 30[1].

3. *Should ERCOT develop a discrete fuel-specific reliability product for winter?*

The Texas Legislature clearly expressed the desire of Texans to improve the reliability of the grid, but it is also clear that perfect insurance against every possible failure is impossible. The PUC should look toward ensuring that an event like Uri results in brief and manageable rolling outages rather than incurring exorbitant costs trying to eliminate outages entirely. Improving fuel security is one item that can be addressed, first through the critical gas infrastructure mapping and weatherization processes already underway and second through additional economic incentives for generators to secure fuel supply for rare and unpredictable weather events.

TPPF agrees that a straightforward solution to this problem would be a new reliability product for fuel security. However, TPPF believes careful study is needed before any steps are taken to create a new

[1] Texas Public Policy Foundation, "Comments to the Public Utility Commission of Texas, Project No. 52373," September 30, 2021, https://interchange.puc.texas.gov/Documents/52373_135_1156425.PDF.

product in this vein. A few GW of fuel-secure generation would have done little to mitigate the outages during Winter Storm Uri. ERCOT reported that fuel supply led to over 6 GW of outages at the height of the storm[2], and that number probably would have been much higher if more plants had not been offline due to weather issues. There is also the question of how such a service can be procured and deployed efficiently to minimize costs to ratepayers.

What is also needed to improve winter fuel security is to maintain a diverse fleet that includes coal and nuclear generation, which are more fuel-secure resources than natural gas and certainly more so than wind and solar. Any product that provides additional revenues for fuel-secure generation must properly value the resiliency afforded by coal and nuclear.

4. *Are there alternatives to a load serving entity (LSE) Obligation that could be used to impose a firming requirement on all generation resources in ERCOT?*

As discussed in our September 30 comments[3], among the proposals being considered, the most cost-effective and direct means to establish a firming requirement for variable generators is through a firming ancillary service. A more detailed analysis of this proposal and potential means for implementing it is provided in a recent publication[4]. Unfortunately, the nature of the market distortions caused by federal subsidies[5], especially the production tax credit, necessitates a targeted response from the PUC. Even in the absence of subsidies, variable generators should be required to shoulder the reliability costs they impose on the system, primarily the costs imposed by their variability during high demand periods. A firming ancillary service will provide an incentive to minimize those costs to ratepayers and help ensure that the entrance of those generators into the market will not degrade grid reliability.

Gas, nuclear, and coal resources in aggregate already exhibit greater than 90% availability during summer peak demand hours with a variability of a few percent (see Figure 1 in footnote 4). The necessary "firming" of those generation resources involves improving their weather resiliency and fuel security during winter peak hours, as well as better coordination of maintenance schedules and modification of scarcity pricing to better incentivize availability during high demand periods. These issues are all being addressed by the PUC and ERCOT, and TPPF believes no further action to "firm up" thermal resources is needed at this time.

5. *Are there alternatives to an LSE Obligation that could address the concerns raised about the stakeholder proposals submitted to the Commission?* TPPF does not have any additional comments regarding this question except what is expressed in the response to Question 4 and below.

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[2] *Update to April 6, 2021 Preliminary Report on Causes of Generator Outages and Derates During the February 2021 Extreme Cold Weather Event*, ERCOT, April 27, 2021, http://www.ercot.com/content/wcm/lists/226521/ERCOT_Winter_Storm_Generator_Outages_By_Cause_Updated_Report_4.27.21.pdf.

[3] TPPF, "Comments to the Public Utility Commission of Texas."

[4] Brent Bennett, *Improving the Reliability of the ERCOT Grid Through a Firming Requirement for Wind and Solar Generation*, Texas Public Policy Foundation, October 2021, https://www.texaspolicy.com/improving-the-ercot-grid-through-a-reliability-requirement-for-variable-generation/.

[5] Brent Bennett, *The Siren Song that Never Ends: Federal Energy Subsidies and Support from 2010 to 2019*, Texas Public Policy Foundation, July 2020, https://www.texaspolicy.com/the-siren-song-that-never-ends/.

Questions Regarding a Load-Serving Entity (LSE) Obligation

TPPF believes an LSE obligation offers few advantages compared to a more transparent and liquid centralized capacity market and would undermine many of the advantages of the existing energy-only market. TPPF agrees with many of the concerns expressed in the October 14 work session and October 21 open meeting regarding resource accreditation, timing of resource procurements, and potential for market distortions that will disadvantage smaller REPs.

Fundamentally, the problem with the ERCOT market is that over $60 billion has been invested in new wind and solar generation[6], which produced less than 1 GW during the height of Winter Storm Uri on the night of February 16.[7] Taking half of that $60 billion in capital investment and investing it in dispatchable generation and in reliability measures, including weather and fuel supply resiliency, would have resulted in significantly better outcomes in February. The solution is *not* to inject more investment into the wholesale market, such as through an LSE obligation, even if that investment is targeted toward greater reliability. The likely result of that change will be an increasingly expensive system of subsidized backup generation and reliability measures to supplement growing amounts of subsidized variable generation. Minimizing costs to ratepayers *necessitates* directly addressing the overinvestment in variable generation due to federal subsidies and out-of-market purchases by large consumers and municipal utilities.

As long as subsidies are distorting market prices, simply altering market prices will fail to produce the desired outcomes, and the PUC must take direct action to ensure that variable generators enter the ERCOT market only to the extent that they do not degrade the reliability of the ERCOT grid. If those generators are required to shoulder the reliability costs that they impose on the system, they will pass some of those costs down to consumers, but they will also have a proper incentive to minimize those costs. A complex mechanism such as an LSE obligation will be used by market participants to shift reliability costs to consumers and will not provide adequate incentives for variable generators to improve their reliability. The most cost-effective way to guarantee the proper outcome and to meet Gov. Abbott's July 6 directives[8] is through a transparent firming requirement, preferably a new firming ancillary service.

Sincerely,

/s/ *Jason Isaac*
Hon. Jason Isaac
Director, Life:Powered
Texas Public Policy Foundation

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[6] Advanced Power Alliance, "Chapter 313 Makes Texas Competitive for Renewable Energy Investments," March, 2021, https://poweralliance.org/wp-content/uploads/2021/03/APA-Tax-Incentives-and-Chapter-313-2021_03.pdf.
[7] ERCOT, *Update to April 6, 2021 Preliminary Report.*
[8] Greg Abbott, "Letter to the Commissioners of the Public Utility Commission of Texas," Office of the Texas Governor, July 6, 2021, https://gov.texas.gov/uploads/files/press/SCAN_20210706130409.pdf.